29 April 2009

Home Retail Group plc
Full-Year Results

Home Retail Group, the UK's leading home and general merchandise retailer, today announces its results for the 52 weeks to 28 February 2009.

Operating highlights

- Strength of the operating model and good cost control helped mitigate the impact of a difficult market environment
- Continued cash management focus throughout the Group led to another strong cash performance
- Group sourcing scale and supply chain initiatives continued to support competitive customer pricing
- Ongoing developments to the customer offer, adapting to their changing needs in challenging times
- The internet now generates more than a quarter of Argos' sales, with continued transfer of skills to support the rapidly growing Homebase online offer
- A net 23 Argos stores opened in the year, with Homebase opening a net 14 including the remaining nine stores previously acquired from Focus

Financial highlights

- Total sales down 1% to £5,897m (2008: £5,985m), with like-for-like sales down 4.8% at Argos and down 10.2% at Homebase
- Group gross margin down 81 basis points, with an approximate 100 basis point reduction at Argos and an approximate 25 basis point increase at Homebase
- Total operating costs and distribution costs total increase of 1%, with underlying inflation of approximately 3% being largely offset by cost reduction actions
- Benchmark operating profit[1] down 25% to £300m (2008: £398m), with a decline of £73m or 19% at Argos and a decline of £30m or 67% at Homebase
- Benchmark profit before tax[2] down 24% to £328m (2008: £433m)
- Basic benchmark earnings per share[3] down 24% to 25.9p (2008: 33.9p)
- Reported operating loss of £402m after exceptional charges of £694m, the majority being Homebase non-cash asset write downs and onerous lease charges
- Reported loss before tax of £394m; reported basic loss per share of 47.7p
- Cash generation of £110m; closing financing net cash position of £284m
- Benchmark pre-tax return on invested capital[4] of 12.0%
- Final dividend of 10.0p recommended; full-year dividend held at 14.7p

Oliver Stocken, Chairman of Home Retail Group, commented:

"This has been a challenging year for the UK retail industry. While profit performance in the short term cannot be immune from the economic backdrop, the Group's underlying strengths will secure our continued longer term success. Delivering another year of net cash generation has been an excellent result and ensures we are well placed for the future."

Terry Duddy, Chief Executive of Home Retail Group, commented:

"In a particularly difficult trading environment, we have managed our costs and cash very effectively to limit the impact on profits. This focus has put us in an even better position to trade through another tough year while further improving our competitive position. We will continue to develop our broad product range, benefit further from our advantaged sourcing operations and invest in our multi-channel operations in order to strengthen our position as the UK's leading home and general merchandise retailer."

1. **Benchmark operating profit** is defined as operating profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items and costs related to demerger incentive schemes.

2. **Benchmark profit before tax (benchmark PBT)** is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances, the discount unwind on non-benchmark items and taxation.

3. **Basic benchmark earnings per share (benchmark EPS)** is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding Home Retail Group shares held in its Employee Share Trust (EST)).

4. **Benchmark pre-tax return on invested capital (benchmark pre-tax ROIC)** is defined as benchmark operating profit plus share of post-tax results of joint ventures and associates, divided by year-end net assets excluding retirement benefit balances, tax balances and financing net cash/debt.

Enquiries

Analysts and investors (Home Retail Group)

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There will be a presentation today at 9.30 am to analysts and investors at the King Edward Hall, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ. The presentation can be viewed live on the Home Retail Group website www.homeretailgroup.com. The supporting slides and an indexed replay will also be available on the website later in the day.

An Interim Management Statement, covering the first quarter's 13 weeks of 1 March 2009 to 30 May 2009, will be published on 11 June 2009.

Certain statements made in this announcement are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward looking statements.

FINANCIAL SUMMARY

52 weeks to £m	28 February 2009	1 March 2008
Argos	4,281.9	4,320.9
Homebase	1,513.2	1,568.5
Financial Services	102.3	95.4
Sales	**5,897.4**	**5,984.8**
Cost of goods	(3,547.4)	(3,551.2)
Gross margin	**2,350.0**	**2,433.6**
Distribution costs	(326.4)	(329.8)
Gross profit	**2,023.6**	**2,103.8**
Net operating costs before exceptional items and costs related to demerger incentive schemes	(1,723.2)	(1,705.8)
Argos	303.6	376.2
Homebase	14.9	45.1
Financial Services	6.1	5.5
Central Activities	(24.2)	(28.8)
Benchmark operating profit	**300.4**	**398.0**
Net interest income (see below)	29.7	33.3
Share of post-tax results of joint ventures and associates	(2.4)	1.6
Benchmark PBT	**327.7**	**432.9**
Exceptional items included in operating profit	(694.0)	0.8
Costs related to demerger incentive schemes	(8.4)	(11.7)
Financing fair value remeasurements	(28.9)	(9.0)
Financing impact on retirement benefit balances	11.2	13.0
Discount unwind on non-benchmark items	(1.8)	-
(Loss)/profit before tax	**(394.2)**	**426.0**
Taxation	(18.9)	(131.4)
of which: taxation attributable to benchmark PBT	*(103.5)*	*(138.5)*
(Loss)/profit for the year	**(413.1)**	**294.6**
Basic benchmark EPS	**25.9p**	**33.9p**
Basic EPS	**(47.7p)**	**34.0p**
Number of shares for basic EPS	866.6m	867.7m

Net interest reconciliation:

Third party net interest income	18.6	15.5
Financing costs charged to Financial Services	13.6	19.6
Discount unwind on benchmark items	(2.5)	(1.8)
Net interest income	**29.7**	**33.3**
Financing fair value remeasurements	(28.9)	(9.0)
Financing impact on retirement benefit balances	11.2	13.0
Discount unwind on non-benchmark items	(1.8)	-
Income statement net financing income	**10.2**	**37.3**

The above tables and those throughout this announcement have been prepared in accordance with Note 1 to the Financial Information on page 29.

FINANCIAL SUMMARY (continued)

Total sales down 1% to £5,897m, reflecting declines of 0.9% at Argos and 3.5% at Homebase. Like-for-like sales were down 4.8% at Argos and 10.2% at Homebase, while the net new space contribution was 3.9% at Argos and 6.7% at Homebase.

Group gross margin down 81 basis points, with Argos' gross margin being down approximately 100 basis points largely reflecting the change in sales mix, while Homebase achieved an approximate 25 basis point increase led by further sourcing and supply chain gains net of increased promotional and clearance activity.

Operating and distribution cost growth contained to a £14m (1%) increase in total, with the approximate £60m (3%) of underlying cost inflation largely offset by further strong cost management in all other areas.

Benchmark operating profit down 25% to £300m, with the £98m reduction from the prior year comprising a £73m (19%) decline at Argos and a £30m (67%) decline at Homebase, less a £5m reduction in the costs of Central Activities.

Benchmark PBT down 24% to £328m, including a £4m reduction in net interest income as lower interest rates more than offset the further strong cash generation.

An effective tax rate based on benchmark PBT of 31.4%, reduced from 32.1% last year reflecting the lower standard UK corporation tax rate, partially offset by a similar absolute amount of disallowable expenditure on a declining level of profits.

Basic benchmark EPS down 24% to 25.9p.

Total dividend for the year maintained at 14.7p, with a final dividend of 10.0p (2008: 10.0p) recommended by the Board.

Net cash increase of £110m to £284m at 28 February 2009, benefiting from further good working capital management and a reduced level of capital expenditure.

Benchmark pre-tax ROIC reduction to 12.0%, reflecting the reduction in profits, partially offset by good management of working capital.

CHIEF EXECUTIVE'S STATEMENT

Outlook for our markets

Total consumer spending in the £60 billion home and general merchandise market declined marginally in calendar year 2008. Within individual product categories we have typically held or gained some share; however, our greater relative exposure towards some of the weaker markets such as furniture, homewares and DIY resulted in our overall 10% share of the total market remaining unchanged.

Looking ahead, we continue to expect a difficult trading environment for the product markets in which we operate. We remain in a position of planning cautiously in respect of the outlook for consumer confidence in general and for the level of discretionary household spending.

In addition to reduced consumer demand, there are also further retail industry-specific pressures. Given the weakness of sterling, the cost of goods for the majority of home and general merchandise products will increase for virtually all UK retailers. A further area of pressure will be the likely continued cost inflation that retailers face.

Against this difficult economic backdrop, Home Retail Group, as the UK's leading home and general merchandise retailer, will continue to pursue a strategy to further its competitive advantage.

Benefit of broad product offerings
Argos and Homebase are strong retail brands and household names that draw demand from having a wide customer appeal. Average transaction values are low at £20-30, while purchase frequency is relatively high at around five visits per customer each year. The Argos operating model typically allows it to offer the product range depth of a specialist retailer in each of the many categories in which it operates. Homebase is well positioned across the broad home enhancement market. The product ranges are also adjusted to the changing needs of customers over time.

The product offering will continue to be strengthened to maximise opportunities during the consumer slowdown, and to target further share gains in large product markets such as consumer electronics at Argos and kitchens at Homebase.

Leadership in multi-channel convenience
Leadership in multi-channel convenience remains key to differentiating the shopping experience for customers, enabling them to shop how they want to today and in the future. Some 40% of Argos' sales are now multi-channel, i.e. internet and phone orders, or store orders for home delivery. The fastest growing channel continues to be online reservations for immediate store collection, a unique service across the entire product range and available in every store. The internet in total generated £1.1 billion or 26% of Argos' sales.

Argos and Homebase will continue to develop their internet offerings as a further important growth opportunity; the potential of the internet is significantly supported by the presence of an expanding store network for additional customer convenience. It is also supported by the scale efficiencies of the shared home delivery infrastructure that delivered 12 million items in the year. The shared Financial Services platform, which provides promotional credit offers across all customer channels, adds further competitive advantage.

Gross margin management
The Group remains committed to delivering customer value while trading through the consumer slowdown. Our product markets will however see significant impact from the weakness of sterling, which is likely to more than offset any underlying easing in supplier manufacturing and shipping costs. Prices to consumers are therefore likely to rise in some of our product markets, but the Group will remain price competitive and the prices of thousands of lines will still be held flat or lowered.

As a market leader, the Group's scale advantage will continue to see it well positioned to stay price competitive relative to most other retailers operating in the same product markets and facing the same overall product cost pressures.

Advantaged sourcing operations
As well as purchasing scale, the Group's skills and infrastructure in all areas of sourcing create a highly advantaged supply base that will enable it to continue to provide excellent customer value. Buying directly from overseas has grown to 33% of Group sales, with our overseas buying offices now directly sourcing around 8,300 product lines across the majority of the Group's product categories. These shared sourcing operations will continue to be the major driver of Group synergy benefits.

There is expected to be further progress on growing the proportion of products directly sourced from overseas manufacturers, as well as additional benefits from value chain projects, supplier base management, and synergies in purchasing goods or services that are not for resale.

Managing the cost base for further efficiencies
In a likely environment of declining sales coupled with further inflationary pressures on the operating cost base, there will be an ongoing need to deliver further cost efficiencies across all parts of the Group. To offset each 1% of underlying inflation across the operating and distribution cost base would require around £20m of cost savings to be found, whilst declining sales volumes would require even further cost reductions to be made.

Given the inherent benefits in its operating cost model, Argos has a strong track record of achieving cost efficiencies and positive cost productivity. While ongoing action on costs will still be required at Argos, there remains a more significant challenge at Homebase given it is a more highly operationally geared business. A number of organisational changes across the Group are already being made in order to deliver annualised cost savings of approximately £50m, of which around £35m will be achieved in the new financial year.

Focus on cash generation
The Group will maintain its focus on cash, building upon the success of the past three years over which time approximately £500m of net cash has been generated. Capital expenditure will be restricted to where it generates the highest levels of return and to that required to keep our infrastructure well maintained; excluding brand acquisitions, net capital expenditure reduced by around a third to £132m in the year being reported, and is expected to fall further in the new financial year. Working capital will also continue to be tightly managed; stock levels were reduced by around 7% year-on-year and the overall movement in working capital was broadly neutral.

The Group will still invest capital selectively in order that its businesses will emerge from the consumer downturn strongly positioned. This will include around 20 new stores at Argos and approximately five at Homebase in the new financial year.

Overall position of strength
Home Retail Group faces the challenging backdrop from a position of operational and financial strength. The Group's broad product offerings, low average transaction values and frequent customer visits are likely to offer resilience. Our strength and leadership in multi-channel retailing will ensure the relevance of our business model by offering true customer convenience. Product cost pressures will be dealt with by appropriate trading strategies and our competitive scale advantage, skills and infrastructure in Group-wide sourcing operations. The drive for further cost efficiencies and our overall focus on cash generation will further protect our position. All of this will be delivered by our colleagues, with their commitment, effort and passion for success being a critical element of the strength of Home Retail Group.

The Group therefore expects to demonstrate further good relative performances in its markets, and to emerge well positioned from the current economic downturn.

BUSINESS REVIEWS

Argos

52 weeks to £m	28 February 2009	1 March 2008
Sales	**4,281.9**	**4,320.9**
Benchmark operating profit	**303.6**	**376.2**
Benchmark operating margin	**7.1%**	**8.7%**
Like-for-like change in sales	(4.8%)	0.7%
New space contribution to sales change	3.9%	3.1%
Total sales change	(0.9%)	3.8%
Gross margin movement	Down c.100bps	Up c.50bps
Benchmark operating profit change	(19%)	16%
Number of stores at year-end	730	707
Of which Argos Extra fully stocked-in	314	278

As the UK's leading general merchandise retailer, Argos provides a highly successful and unique offer of choice, value and convenience.

Operational review

Further strengthening the customer proposition
The current catalogue has been expanded by 400 lines to reach 18,900. Further improvements to stockroom systems and operations have enabled the core stocked-in range to expand by 700 lines to 11,100, while the 'Extra' lines stocked in at larger stores and the home delivery only lines have each reduced slightly to 3,500 and 4,300 respectively.

To grow product choice beyond the main catalogue, in the last year around 3,000 'internet-only' lines have been added to argos.co.uk. The initial ranges extend choice in areas such as white goods, video games, office supplies, beds, sports equipment, audio accessories, nursery ranges and watches, and are typically delivered by the Argos Direct service. Some smaller items are posted to customers free of charge.

Home delivery improvements being implemented include extending the use of two-hour time slot notification for 'two man' home deliveries, while the number of lines on shorter lead times (3-5 days) are also increasing. Customer take-up of packaging removal on delivery and the taking away of old appliances continues to grow in popularity.

Argos' value credentials are being reinforced with a near four-fold increase in the number of 'Argos Value' lines to around 250. Displays of Argos Value ranges and other low cost lines have been installed in most stores, helping to generate impulse sales and further communicate great prices. The increased strength of the 300 'WOW' value lines are seeing sales of these products grow strongly. There is also a move to new promotional messages, aided by improved systems and processes allowing more 'bundled' and 'linked' deals.

As well as strengthening entry price points, ongoing range development has also provided clearer step-up lines and new brands. The acquisitions of the Alba, Bush and Chad Valley brands will also support this strategy going forward.

Around 25% of the store portfolio has seen a trial implemented to gather real-time feedback on customer service. Answers to a series of questions are gathered on electronic keypads, allowing store managers invaluable insight into operational performance. A new 'Tell Argos' website is also collecting customer feedback on what we need to do to continue improving in-store operations; since launch in December 2008, this has already generated 30,000 responses, which can be analysed based upon the specific store transaction details supplied in each response. Other customer-focused initiatives include testing new, clearer order progress screens at the collection points, and changes to simplify the collection process.

Multi-channel leadership

Multi-channel sales totalled £1.7 billion or 40% of all of Argos' sales. The internet now accounts for 26% of Argos' sales; of this, £700m or around 17% of Argos' sales are from customers using the online Check & Reserve service, with this channel growing by one-third year-on-year. Improvements to this service made in the year have included showing the real-time stock availability of any product in the two nearest stores and the ability to check a further eight alternative nearby stores, and a free text message of the reservation number when an online reservation is made with a reminder text sent at midday on the day the reservation expires.

Argos received the '2009 Online Retailer of the Year' award at the recent Retail Week Awards. One of many developments over the year saw the argos.co.uk website add online customer ratings and product reviews. The development of a customised system to do this has allowed reviews to be placed on all products. Since launch in October 2008, most products now carry reviews or a rating, with a total of over 300,000 reviews submitted in the first six months.

Gross margin management

Progress continues on driving sourcing and supply chain benefits, and the recent brand acquisitions will add further direct sourcing scale. The product mix is likely to continue to impact the gross margin rate. In addition, product cost pressures, particularly as a result of sterling weakness, are likely to result in further gross margin rate decline. A level of customer price inflation to help offset the inflationary product cost pressures is expected, with Argos targeting delivery of absolute cash gross margin as opposed to a gross margin rate objective.

Margin management will still however be driven by Argos' commitment to remaining highly price competitive. Underpinning the strong value credentials with customers, Argos continues to constantly monitor and adjust prices over the life of the catalogue, with around 6,000 products being checked against its major competitors on a weekly basis. In the three months since the publication of the January 2009 catalogue, around 5,000 items have had their price either permanently or promotionally reduced.

Driving further cost efficiencies and cash generation

Argos has a strong track record of positive cost productivity, the measure whereby total operating cost growth is less than the combined change in total sales and underlying cost inflation. Recent organisational changes being undertaken to further improve operational efficiency include the number of Argos head office roles reducing by approximately 10%, and a restructuring of certain levels of store management resulting in a reduction in store-based full time equivalent roles.

Argos also continues to achieve efficiency improvements in its distribution network. During the last year, one of the six regional distribution centres had its operations reallocated to the remaining five sites. During the new financial year, this freehold facility will be able to take on the operations of the two existing 'one man' home delivery warehouses. The distribution network has also reached 90% of its waste being recycled, while other efficiencies have included further progress in multi-deck trailer usage, improved scheduling and extended backhaul operations.

Argos will maintain its focus on cash. Capital expenditure in the year just ended was reduced, and is expected to be lower in the new financial year. Argos will also continue to tightly manage its working capital.

Store portfolio expansion and development
A net 23 stores were opened during the year, taking the portfolio to 730 stores. Extent of chain analysis supports further years of growth, and the returns on investment of new Argos stores continue to be attractive. However, given the challenging environment, the new store opening rate is likely to ease to around 20 stores in the new financial year. As a result, the net contribution to sales is expected to be around 3%. New stores will still predominantly be in out-of-town retail parks, although there will also be some new locations in smaller towns as well as further sites sought for the smaller store format within larger cities.

Financial review

Sales in the 52 weeks to 28 February 2009 declined by 0.9% in total; the contribution to sales from net new space was 3.9%, while like-for-like sales declined by 4.8%. There was further strong sales growth and market share gains in consumer electronics categories such as video gaming, flat panel TV and the new PC ranges, though the rate of growth eased in the year. The weakest areas through the year were the furniture and homewares categories, given particularly challenging market conditions. In the early months of the year seasonal areas were difficult, while the final months of the year saw a return of good growth in the more traditional toy areas.

Gross margins were down by approximately 100 basis points, driven by a continuing product mix shift towards lower margin consumer electronics categories and away from higher margin furniture and homewares areas. There were continued supply chain gains as well as some foreign exchange benefits in the first half, however these were used to support lower prices for customers. In the peak trading period there was some additional gross margin impact from increased promotional activity and clearance of seasonal stocks. The launch of the 2009 Spring/Summer catalogue in the final part of the financial year saw the first stages of a margin rate impact from increased product cost pressures as a result of sterling weakness.

Total operating and distribution costs grew by approximately 1% or £15m. Underlying cost inflation was approximately 4% or £50m, an acceleration on the 3% level experienced last year principally as a result of higher fuel and utility costs. The cost base excluding the impact of inflation was therefore reduced by about 3% or £35m. Given the total sales decline in the year was 1%, there was around 2% or £25m of cost productivity as a result of the cost containment initiatives delivered during the year and cost leverage from new store openings.

Benchmark operating profit for the 52 weeks to 28 February 2009 was £303.6m, a 19% decline on last year's record profits of £376.2m. This was the result of the weak sales environment and gross margin pressure, partially offset by further strong cost productivity.

Homebase

52 weeks to £m	28 February 2009	1 March 2008
Sales	**1,513.2**	**1,568.5**
Benchmark operating profit	**14.9**	**45.1**
Benchmark operating margin	**1.0%**	**2.9%**
Like-for-like change in sales	(10.2%)	(4.1%)
New space contribution to sales change	6.7%	2.5%
Total sales change	(3.5%)	(1.6%)
Gross margin movement	Up c.25bps	Up c.250bps
Benchmark operating profit change	(67%)	(16%)
Number of stores at year-end	345	331
Of which contain a mezzanine floor	188	181
Store selling space at year-end ('000 sq ft)	15,947	15,398
Of which - garden centre area	3,620	3,505
- mezzanine floor area	1,973	1,909

Homebase continues to be well positioned as a leading home enhancement retailer.

Operational review

Further strengthening the customer proposition
The Homebase offer continues to improve and Home Retail Group remains confident in its strategic positioning and its meeting of customer needs. Market conditions have, however, continued to be challenging and are likely to remain so in the near term.

The rolling programme of range reviews has included a reflection of the latest consumer trends. For example, new energy efficient products, supported by campaigns to drive awareness, have done particularly well. Similarly, new horticulture ranges have supported the demand for 'grow your own' produce. A stronger value orientation has also been reinforced by a series of 'best buy' deals displayed in the seasonal selling areas.

Further excellent growth and market share gain has been achieved in kitchens. The prior year's national roll-out of the installation service remains a key factor in this success, along with new ranges and over 100 stores having their kitchen displays refreshed during the year. Installation services have been extended to bathrooms with a trial in 50 stores. This is aimed at replicating the success of kitchen installations in capturing new orders and driving up average transaction values, while ensuring customer recommendation rates remain consistently high.

The 'Home' catalogue continues to support Homebase's broader and differentiated home enhancement offer, as well as demonstrating leverage of the product range, skills and infrastructure from Argos. The catalogue showcases furniture, homewares and accessories ranges, with co-ordinated in-store displays. As well as an increased number of 'create the look' pages, there are also 'look for less' and 'great value' spreads.

Multi-channel development
Transactional sales via homebase.co.uk grew strongly, with the number of transactional lines increasing to 5,000 by the end of the year; there are a further 9,000 transactional lines available, representing relevant Argos products which can be ordered for home delivery via the Homebase website. There are an additional 11,000 Homebase lines that are browseable, with the ultimate target to have 100% of lines either browseable or transactional. 'Stock Check' of browseable lines has been rolled out to all UK stores, while a Check & Reserve service is also being trialled in 25 stores.

Gross margin management
Progress continues on driving sourcing and supply chain benefits, in particular from leveraging the scale and expertise of the Group in areas such as direct sourcing. Looking ahead however, product cost pressures, particularly as a result of sterling weakness, are likely to result in the gross margin rate falling. A level of customer price inflation to help offset the inflationary product cost pressures is expected, with Homebase targeting delivery of absolute cash gross margin as opposed to a gross margin rate objective.

Cost base actions
In the first half of the financial year, further action was taken to reduce store payroll costs. This involved the alteration of customer-facing colleague hours to better match demand levels and trading patterns. While this has reduced total store colleague hours, previous trials of the realignment of shift patterns also demonstrated improvements in customer service. This, together with other cost containment actions throughout the business, helped to drive positive cost productivity in the second half of the year being reported.

Additional organisational changes are being undertaken to further improve operational efficiency and cost productivity. Homebase head office functions have seen the number of roles reduced by approximately 15%. There are also additional store-based actions involving a restructuring of store supervisory positions. This will reduce store-based full time equivalent roles by approximately 5%. While lowering costs, the actions will also give the business a more efficient and effective structure, while protecting customer service and essential processes.

Cash protection
Given a particularly challenging outlook for Homebase's product markets combined with a highly operationally geared business, operating profits are likely to be further impacted despite significant cost actions. As a result, an increased focus on cash has been implemented. Capital expenditure in the year just ended was significantly reduced, and is expected to decline further in the new financial year. Homebase will also continue to tightly manage its working capital.

Investment in further operational and customer offer improvements will still be implemented, with an emphasis to ensure Homebase remains well positioned to capitalise on the longer-term recovery in market conditions.

Store portfolio development
A net 14 stores were opened during the year, including the final nine stores acquired from Focus, taking the portfolio to 345 stores. The opening rate for the new financial year will be reduced to approximately five stores. Ongoing portfolio management is likely to see a limited number of store closures each year. As a result, the contribution to sales from net new space is expected to be less than 1% in the new financial year.

Three stores were downsized during the year and a further three have been identified for downsizing in the new financial year, subject to planning permission and landlord agreement. In the approximate one quarter of the portfolio that had seen little or no investment for many years, the low cost refurbishment trial was implemented in a further five stores during the year. Sales uplifts across these trials have been achieving the targeted 15%, and a further ten stores will be reviewed later in the new financial year for potential refurbishment, subject to the trading environment.

Financial review

Sales in the 52 weeks to 28 February 2009 declined by 3.5% in total. The contribution to net new space was 6.7%, which included the benefit from the relaunch of the acquired net 21 Focus stores which opened between December 2007 and June 2008. Like-for-like sales declined by 10.2%. There were challenging market conditions in virtually all product categories throughout the year. There was, however, particular weakness in seasonally-related categories in the first quarter peak sales period, and again in the final months. In contrast to the general trend, kitchens were one area of continued growth. Energy efficient products have also performed well.

Gross margins were ahead by approximately 25 basis points. There was a 125 basis point increase in first half of the year, driven by further sourcing and supply chain gains. In the second half of the year the gross margin declined by approximately 100 basis points, reflecting increased promotional activity and the impact of clearance of seasonal stocks.

Total operating and distribution costs were held broadly flat. Underlying cost inflation remained at approximately 3% or around £25m for the year, with the cost base excluding the impact of inflation therefore reducing by a similar amount. Given the total sales decline in the year was 4%, cost productivity was therefore successfully contained to a negative 1% level. This represents an improvement on the previous two years as a result of extended cost control and containment initiatives throughout the business, with positive cost productivity being achieved in the second half of the year.

Benchmark operating profit for the 52 weeks to 28 February 2009 was £14.9m, a 67% decline on last year’s £45.1m. This was a result of the particularly weak sales environment that could only be partially offset by a small gross margin improvement and strong operating cost management.

Financial Services

52 weeks to £m	28 February 2009	1 March 2008
Sales	**102.3**	**95.4**
Benchmark operating profit before financing costs	19.7	25.1
Financing costs	(13.6)	(19.6)
Benchmark operating profit	**6.1**	**5.5**
Store card gross receivables	488	482
Personal loans gross receivables	3	9
Total gross receivables	491	491
Provision	(67)	(59)
Net receivables at year-end	424	432
Provision % of gross receivables	13.6%	12.0%

Financial Services works in conjunction with Argos and Homebase to provide their customers with the most appropriate credit offers to drive product sales, and to maximise the total profit from the transaction for Home Retail Group.

Operational review

The in-house store card operations drove £573m of Group retail sales over the year, up 1% on the previous year. Sales penetration increased from 8.5% to 8.8%. The proportion of promotional credit sales continued to increase, representing 77% of all sales placed on the store cards. The offer of 'buy now, pay later' products remains a key enabler of driving sales in 'big ticket' categories. In addition to credit sales placed on the Group's own store cards, product loans for purchases over £3,000 have been introduced, with these credit offers being provided by Barclays Partner Finance.

Changes to credit decisioning to manage bad debt risk has continued, with a further tightening of score card cut-off levels being implemented, and a programme of credit limit decreases for existing higher risk accounts. Additionally, a major project to migrate the account management system to a new platform has recently been completed.

Financial review

Total gross receivables were level year-on-year, with a £6m increase in the store card and a £6m reduction from the planned run-off of the personal loans receivables.

Delinquency rates have marginally risen over the year. As a result, the income statement bad debt charge increased by £3m. Financing costs reduced in the year reflecting gross receivables being level but a lower funding cost rate being applied, since this non-cash internal recharge is based upon UK base rates. A corresponding impact is recognised in Group net interest income.

The benchmark operating result of £6.1m for the year reflects the financial return on the revolving (i.e. interest-bearing) element of receivables, as promotional credit products are recharged to Argos and Homebase at cost. The cost advantage of this internal arrangement versus third-party promotional credit provision is therefore a benefit within the Argos and Homebase benchmark operating profits.

Central Activities

52 weeks to £m	28 February 2009	1 March 2008
Benchmark operating expense	**(24.2)**	**(28.8)**

Central Activities represents the cost of central corporate functions and the investment costs of new development opportunities. Corporate functions costs for the year were approximately 10% lower reflecting ongoing cost management, while the investment costs of new development opportunities were also at a lower level than the prior year.

A review of the trial to develop the Argos format in India was completed in January 2009. A decision to discontinue the trial following the initial two year development period was taken mutually by Home Retail Group and its Indian partners Shoppers' Stop and HyperCITY. The trial had not met the planned performance levels to support the investment required in the current Indian economic climate. The retail operations are being wound down at minimal cost to Home Retail Group. At some point in the future, the Indian retail market may still present an attractive long term growth opportunity for the Argos multi-channel model.

The HomeStore&More development opportunity continues to be trialled. This out-of-town homewares format has seen its third UK store open recently in Harlow. In the latest store, greater emphasis has been placed on the bedding and textiles categories in order to further test the opportunity in these areas. A fourth trial store is expected to open in the new financial year. The Irish operation in which Home Retail Group has a 33% stake has now expanded to six stores in total; further expansion is likely to be dependent on conditions in the Irish economic climate improving.

GROUP FINANCIAL REVIEW

Sales and benchmark operating profit

Sales for the Group were 1.5% lower at £5,897.4m (2008: £5,984.8m) and benchmark operating profit declined 25% to £300.4m (2008: £398.0m). Group benchmark operating margin was 5.1% (2008: 6.7%). The drivers of this performance have been analysed as part of the preceding business reviews.

Net interest income

Net interest income was £29.7m (2008: £33.3m). Within this, third party interest income for the year increased to £18.6m (2008: £15.5m). While the Group's net cash position increased, the lower effective interest rate earned resulted in reduced third party interest income in the second half of the year being reported; a further substantial reduction is expected in the new financial year.

The financing costs charged within Financial Services' benchmark operating profit saw the corresponding credit within net interest income reduce to £13.6m (2008: £19.6m). This non-cash internal recharge is based upon UK base rates, therefore a further substantial reduction is expected in the new financial year.

The charge within net interest income in relation to the discount unwind on benchmark items was £2.5m (2008: £1.8m). This arises from the accounting treatment whereby provisions for expected future liabilities are required to be discounted back to current value. As settlement of the liability moves closer to the present day, additional non-cash charges to unwind the discount are taken; this will result in the absolute level of provision eventually matching the liability in the accounting period that it becomes due.

Share of post-tax results of joint ventures and associates

These amounted to a loss of £2.4m (2008: income of £1.6m). The loss is principally due to further costs incurred by the joint venture with Barclays Bank PLC as it continues to develop the Argos credit card launched last year. The prior year income reflected a £2.8m gain on disposal of the Group's 33% holding in AAGUS, a consumer finance company in The Netherlands.

Benchmark profit before tax

Benchmark profit before tax for the year declined 24% to £327.7m (2008: £432.9m).

Exceptional items

The total exceptional pre-tax charge recorded in the year was £694.0m. Of this, £651.2m represented write downs to the carrying value of Homebase's assets, together with onerous lease charges.

Accounting standards require asset impairment tests to be performed either annually or when a trigger event has been identified. As a result of the challenging retail environment, the carrying value of Homebase's assets held on the Group's balance sheet has been written down. Key assumptions for the value-in-use calculations include management's profit projections for a five year period, a long-term growth rate of 2.5% from year six onwards and a post-tax discount rate of 8.5%.

The resulting goodwill impairment charge is £381.7m, reducing the Homebase goodwill value to £388.7m. Also based on latest estimates and assumptions, an impairment charge of £152.2m has been taken in respect of store-related assets, and a £117.3m provision for lease contracts deemed to be onerous. These accounting charges do not change the cash flows of the Group. The impairment of store-related assets reduced second half depreciation costs by approximately £5m within Homebase's benchmark operating profit.

An exceptional pre-tax charge of £35.2m relates to the organisational changes being undertaken to improve the operational efficiency of the Group and drive further cost productivity. As described in the preceding business reviews, actions taken include a streamlining of head office functions across all parts of the Group, restructuring of store-based staff to better match demand levels and trading patterns, and a consolidation of home delivery warehouses. The cash costs relating to this charge were £3.1m in the year being reported, with the balance expected to be incurred in the new financial year. The annualised cost saving from these actions is approximately £50m. Around £35m of this is expected to be achieved within the new financial year, helping to partially offset the impact of the challenging environment.

The residual £7.6m exceptional charge reflects the final costs of post-acquisition integration of the Focus DIY stores that occurred in the first half of the year.

Costs related to demerger incentive schemes

These amounted to £8.4m (2008: £11.7m). It was previously announced that these costs were expected to amount to a maximum of £40m, to be charged to the income statement over the three-year period commencing from the date of demerger, and are excluded from benchmark PBT. In the first half of the new financial year a final charge will be taken, with the cumulative three-year cost now expected to be approximately £35m, subject to performance measures.

Financing fair value remeasurements

Certain foreign exchange movements as well as changes in the fair value of certain financial instruments are recognised in the income statement within net financing income. These amounted to charges of £28.9m (2008: £9.0m), which arise principally as a result of translation differences on subsidiary cash balances. The increased charge reflects the weakening of sterling against other currencies during the year. Equal and opposite adjustments to these translation differences are recognised as part of the movements in reserves. As required by accounting standards, the net nil exchange adjustment is therefore split between the income statement and the statement of recognised income and expense.

Financing impact on retirement benefit balances

The credit through net financing income in respect of the excess of expected return on retirement benefit assets over the interest expense on retirement benefit liabilities amounted to £11.2m (2008: £13.0m). The current service cost, which Home Retail Group believes to be a fairer reflection of the cost of providing retirement benefits, is already reflected in benchmark operating profit.

Discount unwind on non-benchmark items

An expense of £1.8m (2008: nil) within net financing income relates to the discount unwind on onerous lease provisions. As these provisions were treated as exceptional items, the discount unwind on these items has also been excluded from benchmark profit before tax. As set out within the net interest income review above, these non-cash charges arise from the accounting treatment whereby provisions for expected future liabilities are discounted back to current value.

Loss before tax

The reported loss before tax for the year was £394.2m (2008: profit of £426.0m).

Taxation

Taxation attributable to benchmark PBT was £103.5m (2008: £138.5m), representing an effective tax rate (excluding joint ventures and associates) of 31.4% (2008: 32.1%). The reduction in the effective rate largely reflects the cut in the standard UK corporation tax rate from 30.0% to 28.0%, partially offset by a broadly level absolute amount of disallowable expenditure on a declining level of profits. Profit in the Republic of Ireland, which attracts a favourable rate of corporation tax, was also lower.

Taxation attributable to non-benchmark items amounted to a credit of £61.1m (2008: £0.4m), reflecting those items which qualify for tax relief. There was also a net exceptional tax credit in respect of prior years of £23.5m (2008: £6.7m). The total tax expense for the year was therefore £18.9m (2008: £131.4m).

Number of shares and earnings per share

The number of shares for the purpose of calculating basic earnings per share (EPS) is 866.6m (2008: 867.7m), representing the weighted average number of issued ordinary shares of 877.4m (2008: 877.4m), less an adjustment of 10.8m (2008: 9.7m) representing shares held in Home Retail Group's share trusts net of vested but unexercised options and share awards.

The calculation of diluted EPS reflects the potential dilutive effect of employee share incentive schemes. This increases the number of shares for diluted EPS purposes by 10.4m (2008: 9.6m) to 877.0m (2008: 877.3m). However, as the Group made a reported loss after tax for the year, the effect of employee share incentive schemes is anti-dilutive and therefore diluted EPS equals basic EPS.

Basic benchmark EPS is 25.9p (2008: 33.9p), with diluted benchmark EPS of 25.6p (2008: 33.6p). Reported basic EPS is a loss of 47.7p (2008: profit of 34.0p), with reported diluted EPS being a loss of 47.7p (2008: profit of 33.6p).

Dividends

Home Retail Group's dividend policy remains to target dividend cover over the medium term of around two times, based on full-year basic benchmark EPS.

Supported by the strong cash position of the Group, a final dividend maintained at 10.0p is being recommended by the Board, therefore holding the dividend for the year at 14.7p. Based on basic benchmark EPS of 25.9p (2008: 33.9p), this represents cover of 1.76 times (2008: 2.31 times).

The final dividend, subject to approval by shareholders at the AGM, will be paid on 22 July 2009 to shareholders on the register at the close of business on 22 May 2009.

Cash flow and net cash position

52 weeks to £m	**28 February 2009**	**1 March 2008**
Benchmark operating profit	300.4	398.0
Exceptional items within operating profit	(694.0)	0.8
Demerger incentive scheme costs	(8.4)	(11.7)
Statutory operating profit after exceptional items	(402.0)	387.1
Depreciation and amortisation	159.4	151.6
Movement in working capital	(10.2)	(48.1)
Finance expense charged to FS cost of sales	13.6	19.6
Non-cash Homebase exceptional charges	651.2	10.3
Other non-cash operating items	56.4	43.7
Cash flows from operating activities	**468.4**	**564.2**
Net interest	16.6	15.1
Taxation	(74.7)	(95.1)
Net capital expenditure	(132.4)	(207.9)
Acquisitions and disposals	(20.6)	(44.3)
Purchase of term deposit	(75.0)	-
Purchase of other investments	(2.2)	(1.9)
Cash inflow before financing activities	**180.1**	**230.1**
Dividends paid	(127.2)	(118.9)
Repayment of borrowings	-	(225.1)
Purchase of own shares	(21.6)	-
Other financing activities	0.1	2.3
Net increase/(decrease) in cash and cash equivalents	**31.4**	**(111.6)**
Opening cash and cash equivalents	174.0	283.8
Net cash inflow/(outflow)	31.4	(111.6)
Effect of foreign exchange rate changes	4.0	1.8
Closing cash and cash equivalents	209.4	174.0
Term deposit	75.0	-
Closing financing net cash	**284.4**	**174.0**

The Group's financing net cash position at 28 February 2009 was £284.4m, an increase of £110.4m over the year. The financing net cash position includes a £75m term deposit which was purchased in July 2008 and matured on 15 April 2009.

Cash flows from operating activities were £468.4m (2008: £564.2m). This reduction was driven by the lower benchmark operating result.

Net capital expenditure, excluding £20.6m for the purchases of the Alba, Bush and Chad Valley brands, was £132.4m (2008: £207.9m). The reduction largely reflects the lower number of stores opened year-on-year.

Other significant cash flows in the year included dividends paid to shareholders of £127.2m (2008: £118.9m), reduced tax payments of £74.7m (2008: £95.1m) reflecting lower profits and a repayment from the tax authorities in respect of the cash settlement of historic tax issues that were successfully agreed in the previous financial year, and £21.6m to purchase shares for the Home Retail Employee Share Trust.

Balance sheet

As at £m	**28 February 2009**	**1 March 2008**
Goodwill	1,541.0	1,922.7
Other intangible assets	103.6	83.7
Property, plant and equipment	559.3	731.8
Inventories	930.3	1,004.8
Instalment receivables	424.5	432.0
Other assets	243.9	196.8
	3,802.6	4,371.8
Trade and other payables	(1,063.2)	(1,130.8)
Other liabilities	(251.7)	(101.5)
	(1,314.9)	(1,232.3)
Invested capital	**2,487.7**	**3,139.5**
Retirement benefit (obligations)/assets	(46.4)	83.7
Net tax assets/(liabilities)	32.7	(52.0)
Financing net cash	284.4	174.0
Reported net assets	**2,758.4**	**3,345.2**

Reported net assets amounted to £2,758.4m, which is equivalent to 322p per share, excluding shares held in the EST. The reduction in net assets versus the 1 March 2008 year-end balance sheet was £586.8m.

The Homebase goodwill impairment of £381.7m, write down of store-related assets of £152.2m, and increase in provision for onerous leases of £117.3m were the principal drivers of the net asset reduction. Management of working capital, including the reduction in inventories of £74.5m, together with the lower level of capital expenditure, contributed to the £110.4m increase in financing net cash.

Benchmark pre-tax return on invested capital is a key performance measure for the Group. Benchmark operating profit plus share of post-tax results of joint ventures and associates was £298.0m, down £101.6m or 25%, while year-end invested capital reduced by 21%. This results in a pre-tax ROIC of 12.0%. Adjusting the 1 March 2008 invested capital position for the £651.2m of Homebase exceptional write downs and provisions, the prior year pre-tax ROIC would have been 16.1%. This represents a 410 basis point reduction on a comparable basis.

Capital structure

The Group finances its operations through a combination of retained profits, property leases and borrowing facilities where necessary. The Group's net cash balances averaged approximately £350m over the year, and ranged from approximately £200m to £700m due to trading seasonality; the Group did not draw upon its committed borrowing facilities at any point during the year.

The Group has significant liabilities through its obligations to pay rents under operating leases. The capitalised value of these liabilities is £2,982m based upon a simple eight-times multiple of the year's operating lease charge, or £3,304m based upon discounted cash flows of the expected future operating lease charges. In common with the credit rating agencies, the Group treats its lease liabilities as debt when evaluating financial risk.

As an independent company, Home Retail Group has now demonstrated three years of strong cash generation. In the financial year being reported, the substantial weakening in consumer spending has reduced profits. While progress on cash generation has to date still been maintained, the outlook for consumer spending continues to look challenging. The Board is therefore mindful of maintaining flexibility through a prudent balance sheet approach. This will offer further resilience during the current economic slowdown, while not constraining continued investment in value-enhancing longer-term growth opportunities. The Board will continue to review its capital structure to ensure that it remains appropriate.

Retirement benefit assets and liabilities

Pension arrangements are operated principally through the Home Retail Group Pension Scheme, a defined benefit scheme, together with the Home Retail Group Stakeholder Pension Scheme, a defined contribution scheme.

The IAS 19 valuation as at 28 February 2009 for the UK defined benefit scheme was a net deficit £46.4m (2008: net surplus of £83.7m). The fair value of the scheme assets was £504.4m (2008: £646.5m), the present value of the scheme liabilities was £539.8m (2008: £552.1m), and the present value of unfunded pension arrangements was £11.0m (2008: £10.7m).

The change in the net valuation position was driven principally by the lower market value of scheme assets. While there was also an adverse net valuation impact from a more prudent view of life expectancy assumptions, the present value of scheme liabilities reduced overall as a result of the assumed discount rate increasing from 6.1% to 6.5%.

A full actuarial valuation of the defined benefit scheme is carried out every three years. The latest full review, as at 31 March 2009, is currently underway and is being carried out by independent, qualified actuaries.

Liquidity and funding

The Group maintains liquidity by arranging funding ahead of requirements and through access to committed facilities. At 28 February 2009, the Group had £700m of undrawn committed borrowing facilities, £685m of which does not expire until 2013. These facilities are in place to enable the Group to finance its working capital requirements and for general corporate purposes, should the need arise. The Group's net cash position is however expected to continue to be sufficient to meet its financing needs in the foreseeable future.

Treasury policy and risk management

The Group's treasury function seeks to reduce exposures to foreign exchange, interest rate and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs, and to invest the Group's cash resources in financial institutions with an appropriate credit rating. Its policies and procedures are subject to review and approval by the Board.

Counterparty credit risk management

The Group's exposure to credit risk with regard to treasury transactions is managed by dealing only with major banks and financial institutions with appropriate credit ratings and within limits set for each organisation. Dealing activity is closely controlled and counterparty positions are monitored on a regular basis.

Interest rate risk management

The Group's principal objective is to manage the trade-off between the effective rate of interest and the credit risk associated with the counterparty bank or financial institution.

UK base rates have reduced from 5.25% at March 2008 to 0.5% at March 2009. While the annual effective rate of interest earned on the Group's net cash balances has therefore already reduced in the financial year being reported, the reduction is likely to be much more substantial in the new financial year.

Currency risk management

The Group's key objective is to reduce the effect of exchange rate volatility on profits. Transactional currency exposures that could significantly impact the income statement are hedged using forward purchases of foreign currencies.

Approximately one quarter of the Group's product costs are paid for in US dollars. Sterling has substantially weakened against the US dollar during the course of the financial year being reported. Transaction exposure will therefore exist in the new financial year since the hedged rates will be materially lower than the financial year being reported.

Share price and total shareholder return

The Group's share price ranged from a low of 163.5p to a high of 280.75p during the financial year. On 27 February 2009, the closing mid market price was 212.5p, giving a market capitalisation of £1.9 billion at the year-end.

Total shareholder return (the change in the value of a share including reinvested dividends) has been a decline of 12.4% over the year. This compares to a decline of 27.3% for the FTSE 350 General Retail sector and a decline of 31.8% for the wider FTSE 100.

Accounting standards and use of non-GAAP measures

The Group has prepared its consolidated financial statements under International Financial Reporting Standards for the 52 weeks ended 28 February 2009. The basis of preparation is outlined in Note 1 to the Financial Information on page 29.

The Group has identified certain measures that it believes provide additional useful information on the underlying performance of the Group. These measures are applied consistently but as they are not defined under GAAP they may not be directly comparable with other companies' adjusted measures. The non-GAAP measures are outlined in Note 2 to the Financial Information on page 29.

Principal risks and uncertainties

The Group will set out the principal risks and uncertainties which could impact its performance, together with examples of mitigating activity, in its 2009 Annual Report and Financial Statements; an unedited full text excerpt will also be included in the Regulatory Information Service announcement accompanying the publication of the full report.

The Group operates a structured risk management process which identifies and evaluates risks and uncertainties and reviews mitigation activity. As previously disclosed, the main area of potential risk and uncertainty centres on the impact on sales volumes and thereby profitability in relation to economic conditions and overall consumer demand. Other potential risks and uncertainties around sales and/or profit growth include competitor activity, product supply and other operational processes, business interruption, infrastructure development, product safety, reliance on key personnel, the regulatory environment and currency.

Annual report and annual general meeting

The 2009 Annual Report and Financial Statements is expected to be available at www.homeretailgroup.com and posted to shareholders on or around 29 May 2009. The Annual General Meeting will be held from 11.00 am on Wednesday 1 July 2009 at the Jurys Inn Milton Keynes, Midsummer Boulevard, Milton Keynes MK9 2HP.

Appendix 1. Future trading statement comparables

	Q1 13 weeks to 31 May 2008
Argos	
Sales	£929m
Like-for-like change in sales	0.0%
Net new space contribution to sales change	4.0%
Total sales change	4.0%
Gross margin movement	Down c.125bps
Homebase	
Sales	£440m
Like-for-like change in sales	(12.0%)
Net new space contribution	7.0%
Total sales change	(5.0%)
Gross margin movement	Up c.125bps

	Q2 13 weeks to 30 Aug 2008	H1 26 weeks to 30 Aug 2008
Argos		
Sales	£927m	£1,856m
Like-for-like change in sales	(5.8%)	(3.0%)
Net new space contribution to sales change	4.2%	4.1%
Total sales change	(1.6%)	1.1%
Gross margin movement	Down c.25bps	Down c.75bps
Homebase		
Sales	£389m	£829m
Like-for-like change in sales	(8.3%)	(10.3%)
Net new space contribution to sales change	8.0%	7.4%
Total sales change	(0.3%)	(2.9%)
Gross margin movement	Up c.125bps	Up c.125bps

	Q3 18 weeks to 3 Jan 2009	YTD 44 weeks to 3 Jan 2009
Argos		
Sales	£1,850m	£3,707m
Like-for-like change in sales	(7.5%)	(5.3%)
Net new space contribution to sales change	3.9%	4.0%
Total sales change	(3.6%)	(1.3%)
Gross margin movement	Down c.125bps	Down c.100bps
Homebase		
Sales	£479m	£1,308m
Like-for-like change in sales	(10.2%)	(10.2%)
Net new space contribution	6.4%	7.0%
Total sales change	(3.8%)	(3.2%)
Gross margin movement	Down c.50bps	Up c.50bps

	Q4 8 weeks to 28 Feb 2009	H2 26 weeks to 28 Feb 2009	FY 52 weeks to 28 Feb 2009
Argos			
Sales	£575m	£2,425m	£4,282m
Like-for-like change in sales	(1.6%)	(6.2%)	(4.8%)
Net new space contribution to sales change	3.2%	3.8%	3.9%
Total sales change	1.6%	(2.4%)	(0.9%)
Gross margin movement	Down c.125bps	Down c.125bps	Down c.100bps
Homebase			
Sales	£205m	£684m	£1,513m
Like-for-like change in sales	(10.2%)	(10.2%)	(10.2%)
Net new space contribution to sales change	4.7%	5.9%	6.7%
Total sales change	(5.5%)	(4.3%)	(3.5%)
Gross margin movement	Down c.175bps	Down c.100bps	Up c.25bps

Consolidated income statement

For the 52 weeks ended 28 February 2009

	Notes	**52 weeks ended 28 February 2009** Before exceptional items £m	Exceptional items £m	After exceptional items £m	52 weeks ended 1 March 2008 Before exceptional items £m	Exceptional items £m	After exceptional items £m
Revenue		**5,897.4**	**-**	**5,897.4**	5,984.8	-	5,984.8
Cost of sales		**(3,873.8)**	**-**	**(3,873.8)**	(3,881.0)	-	(3,881.0)
Gross profit		**2,023.6**	**-**	**2,023.6**	2,103.8	-	2,103.8
Net operating expenses	3	**(1,731.6)**	**(694.0)**	**(2,425.6)**	(1,717.5)	0.8	(1,716.7)
Operating profit/(loss)		**292.0**	**(694.0)**	**(402.0)**	386.3	0.8	387.1
- Finance income		**63.7**	**-**	**63.7**	62.3	-	62.3
- Finance expense		**(53.5)**	**-**	**(53.5)**	(25.0)	-	(25.0)
Net financing income	4	**10.2**	**-**	**10.2**	37.3	-	37.3
Share of post-tax (loss)/profit of joint ventures and associates		**(2.4)**	**-**	**(2.4)**	1.6	-	1.6
Profit/(loss) before tax		**299.8**	**(694.0)**	**(394.2)**	425.2	0.8	426.0
Taxation	3	**(101.2)**	**82.3**	**(18.9)**	(137.1)	5.7	(131.4)
Profit/(loss) for the year attributable to equity shareholders		**198.6**	**(611.7)**	**(413.1)**	288.1	6.5	294.6
Earnings per share				**pence**			pence
- Basic	6			**(47.7)**			34.0
- Diluted	6			**(47.7)**			33.6

	2009 pence	2008 pence
Proposed final dividend per share	**10.0**	10.0
Interim dividend per share	**4.7**	4.7
Proposed total dividend per share	**14.7**	14.7

Non-GAAP measures ***Reconciliation of profit before tax ('PBT') to benchmark PBT***	*Notes*	**52 weeks ended 28 February 2009 £m**	52 weeks ended 1 March 2008 £m
(Loss)/profit before tax		**(394.2)**	426.0
Adjusted for:			
Exceptional items	*3*	**694.0**	(0.8)
Demerger incentive schemes		**8.4**	11.7
Financing fair value remeasurements	*4*	**28.9**	9.0
Financing impact on retirement benefit balances	*4*	**(11.2)**	(13.0)
Discount unwind on exceptional onerous lease provisions		**1.8**	-
Benchmark PBT		**327.7**	432.9
Benchmark earnings per share		**pence**	pence
- Basic	*6*	**25.9**	33.9
- Diluted	*6*	**25.6**	33.6

Consolidated statement of recognised income and expense

For the 52 weeks ended 28 February 2009

	52 weeks ended 28 February 2009	52 weeks ended 1 March 2008
	£m	£m
Net income/(expense) recognised directly in equity		
Net change in fair value of cash flow hedges		
- Foreign currency forward exchange contracts	**153.3**	(17.7)
Net change in fair value of cash flow hedges transferred to inventory		
- Foreign currency forward exchange contracts	**(130.1)**	19.8
Actuarial (losses)/gains in respect of defined benefit pension schemes	**(135.4)**	73.9
Fair value movements on available-for-sale financial assets	**(2.3)**	0.1
Currency translation differences	**35.9**	13.5
Tax credit/(charge) in respect of items taken directly to equity	**32.5**	(22.8)
Net (expense)/income recognised directly in equity for the year	**(46.1)**	66.8
(Loss)/profit for the year attributable to equity shareholders	**(413.1)**	294.6
Total recognised (expense)/income for the year attributable to equity shareholders	**(459.2)**	361.4

Consolidated balance sheet

At 28 February 2009

	Notes	28 February 2009 £m	1 March 2008 £m
ASSETS			
Non-current assets			
Goodwill		**1,541.0**	1,922.7
Other intangible assets		**103.6**	83.7
Property, plant and equipment		**559.3**	731.8
Investment in joint ventures and associates		**8.4**	7.7
Deferred tax assets		**87.4**	46.6
Trade and other receivables		**3.4**	4.8
Retirement benefit assets		**-**	83.7
Other financial assets		**9.2**	14.2
Total non-current assets		**2,312.3**	2,895.2
Current assets			
Inventories		**930.3**	1,004.8
Trade and other receivables		**593.7**	597.8
Current tax assets		**15.1**	16.9
Other financial assets		**53.7**	4.3
Current asset investments		**75.0**	-
Cash and cash equivalents		**209.4**	174.0
Total current assets		**1,877.2**	1,797.8
Total assets		**4,189.5**	4,693.0
LIABILITIES			
Non-current liabilities			
Trade and other payables		**(64.0)**	(41.3)
Provisions		**(198.6)**	(72.6)
Deferred tax liabilities		**(26.3)**	(67.4)
Retirement benefit obligations		**(46.4)**	-
Total non-current liabilities		**(335.3)**	(181.3)
Current liabilities			
Trade and other payables		**(999.2)**	(1,089.5)
Provisions		**(51.6)**	(26.1)
Other financial liabilities		**(1.5)**	(2.8)
Current tax liabilities		**(43.5)**	(48.1)
Total current liabilities		**(1,095.8)**	(1,166.5)
Total liabilities		**(1,431.1)**	(1,347.8)
Net assets		**2,758.4**	3,345.2
EQUITY			
Share capital	7	**87.7**	87.7
Merger reserve	7	**(348.4)**	(348.4)
Other reserves	7	**35.4**	3.9
Retained earnings	7	**2,983.7**	3,602.0
Total equity		**2,758.4**	3,345.2

Consolidated cash flow statement

For the 52 weeks ended 28 February 2009

	Notes	**52 weeks ended 28 February 2009 £m**	52 weeks ended 1 March 2008 £m
Cash flows from operating activities			
Cash generated from operations	8	**468.4**	564.2
Interest received		**16.6**	18.7
Interest paid		**-**	(3.6)
Tax paid		**(74.7)**	(95.1)
Net cash inflow from operating activities		**410.3**	484.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(110.9)**	(176.3)
Proceeds from the disposal of property, plant and equipment		**2.6**	3.4
Purchase of intangible assets		**(44.7)**	(35.0)
Loan to joint venture		**(2.0)**	-
Purchase of investments		**(75.2)**	(8.7)
Disposal of investment		**-**	3.9
Acquisition of businesses		**-**	(41.4)
Net cash used in investing activities		**(230.2)**	(254.1)
Cash flows from financing activities			
Purchase of own shares		**(21.6)**	-
Proceeds from sale of own shares		**0.1**	2.3
Repayment of finance leases		**-**	(0.1)
Repayment of loans		**-**	(225.0)
Dividends paid		**(127.2)**	(118.9)
Net cash used in financing activities		**(148.7)**	(341.7)
Net increase/(decrease) in cash and cash equivalents		**31.4**	(111.6)
Movement in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**174.0**	283.8
Effect of foreign exchange rate changes		**4.0**	1.8
Net increase/(decrease) in cash and cash equivalents		**31.4**	(111.6)
Cash and cash equivalents at the end of the year		**209.4**	174.0

Analysis of net cash/(debt)

At 28 February 2009

Non-GAAP measures	***28 February 2009 £m***	*1 March 2008 £m*
Financing net cash:		
Cash at bank and in hand	***209.4***	*174.0*
Current asset investments	***75.0***	*-*
Total financing net cash	***284.4***	*174.0*
Operating net (debt):		
Property leases	***(3,304.3)***	*(3,057.1)*
Total operating net (debt)	***(3,304.3)***	*(3,057.1)*
Total net (debt)	***(3,019.9)***	*(2,883.1)*
Adjusted for:		
Operating leases that are off balance sheet	***3,304.3***	*3,057.1*
Current asset investments	***(75.0)***	*-*
Total net cash reflected in balance sheet	***209.4***	*174.0*

The Group uses the term total net cash/(debt) which highlights the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases. The capitalised value of these property leases is £3,304.3m (2008: £3,057.1m) based upon discounting the current rentals at the estimated current long-term cost of borrowing of 4.1% (2008: 5.3%).

The current asset investment comprises a term cash deposit invested for a period of nine months which matured after the balance sheet date on 15 April 2009.

Notes
For the 52 weeks ended 28 February 2009

1. BASIS OF PREPARATION

The Group consolidated financial statements are presented in sterling, rounded to the nearest hundred thousand. They are prepared on the historic cost basis modified for the revaluation of certain financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are consistent with those described in the Annual Report and Financial Statements 2008. These policies have been consistently applied to all the periods presented.

2. NON-GAAP FINANCIAL INFORMATION

Exceptional items

Items which are both material and non-recurring are presented as exceptional items within their relevant income statement line. The separate reporting of exceptional items helps provide a better indication of underlying performance of the Group. Examples of items which may be recorded as exceptional items are impairment charges, restructuring costs and the profits/losses on the disposal of businesses.

Benchmark profit before tax ('PBT')

The Group uses the term benchmark PBT as a measure which is not formally recognised under IFRS. Benchmark PBT is defined as profit before amortisation of acquisition intangibles, store impairment and onerous lease charges, exceptional items, costs related to demerger incentive schemes, financing fair value remeasurements, financing impact on retirement benefit balances, the discount unwind on non-benchmark items and taxation. This measure is considered useful in that it provides investors with an alternative means to evaluate the underlying performance of the Group's operations.

Total net debt

The Group uses the term total net debt which is considered useful in that it provides the Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably property leases.

Notes

For the 52 weeks ended 28 February 2009

3. EXCEPTIONAL ITEMS	**52 weeks ended 28 February 2009 £m**	52 weeks ended 1 March 2008 £m
Goodwill impairment (a)	**(381.7)**	-
Store impairment charges (b)	**(152.2)**	(10.3)
Onerous lease provisions (c)	**(117.3)**	-
Costs relating to the post-acquisition integration of the Focus DIY stores (d)	**(7.6)**	(9.1)
Reorganisation and restructuring charges (e)	**(35.2)**	-
Accrual release relating to incentive schemes (f)	**-**	20.2
Exceptional items in operating (loss)/profit	**(694.0)**	0.8
Tax on exceptional items in (loss)/profit before tax	**58.8**	(1.0)
Exceptional corporation tax credit (g)	**27.4**	12.6
Exceptional deferred tax charge (h)	**(3.9)**	(5.9)
Exceptional tax	**82.3**	5.7
Exceptional (loss)/profit for the year	**(611.7)**	6.5

(a) Management has interpreted the economic environment and resulting retail downturn as an external indicator of impairment. As a result, and as required by IAS 36, the assets of the business have been subject to an impairment review. Goodwill is allocated to cash-generating units at the level of each business segment. The recoverable amount of each of the business segments is determined as being the higher of its fair value less costs to sell and its value-in-use. As a result, an impairment charge of £381.7m has been booked against the carrying value of the Homebase goodwill.

(b) As a result of the impairment review highlighted in (a) above, certain assets have been written down to their recoverable amount, being the higher of fair value less costs to sell and value-in-use. For the 52 weeks to 28 February 2009, this resulted in a net impairment charge in respect of the Homebase store portfolio of £152.2m.

(c) The onerous lease provisions cover potential liabilities for onerous lease contracts for stores that have either closed, or where projected future trading income is insufficient to cover the lower of exit cost or value-in-use. For the 52 weeks to 28 February 2009, this resulted in an onerous lease charge in respect of the Homebase store portfolio of £117.3m.

(d) Represents costs relating to the post-acquisition integration of certain of the Focus DIY stores acquired in the 52 weeks to 1 March 2008.

(e) Represents costs relating to the reorganisation and restructuring programme during the 52 weeks to 28 February 2009. Actions taken include a streamlining of head office functions across all parts of the Group, restructuring of store-based staff and a consolidation of home delivery warehouses.

(f) Represents the release of an accrual in respect of previous GUS-related long-term incentive schemes which were settled in June 2007.

(g) Represents the recognition of a corporation tax credit arising from the revision and agreement of prior year tax computations and the completion of a periodic review of the tax risks associated with the Group's overseas trading operations.

(h) The deferred tax charge of £3.9m represents the reversal of a deferred tax asset created on IFRS transition. The prior year charge of £5.9m represents an additional deferred tax charge arising from the re-estimation of qualifying assets in respect of accelerated tax depreciation, following the agreement of prior year tax computations.

Notes

For the 52 weeks ended 28 February 2009

4. NET FINANCING INCOME/(COSTS)	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Finance income:		
Bank deposits and other interest	**18.6**	18.8
Expected return on retirement benefit assets	**45.1**	43.5
Total finance income	**63.7**	62.3
Finance expense:		
Interest cost of perpetual securities	**-**	(3.3)
Unwinding of discounts (a)	**(4.3)**	(1.8)
Financing fair value remeasurements:		
– net losses on financial instruments	**-**	(0.9)
– net exchange losses	**(28.9)**	(8.1)
Interest expense on retirement benefit liabilities	**(33.9)**	(30.5)
Total finance expense	**(67.1)**	(44.6)
Less: finance expense charged to Financial Services cost of sales	**13.6**	19.6
Total net finance expense	**(53.5)**	(25.0)
Net financing income	**10.2**	37.3

(a) Included within unwinding of discounts is a £1.8m charge (2008: £nil) relating to the discount unwind on exceptional onerous lease provisions.

5. DIVIDENDS	52 weeks ended 28 February 2009 £m	52 weeks ended 1 March 2008 £m
Amounts recognised as distributions to equity holders		
Final dividend of 10.0p per share (2008: 9.0p) for the prior year	**86.8**	78.1
Interim dividend of 4.7p per share (2008: 4.7p) for the current year	**40.4**	40.8
Ordinary dividends on equity shares	**127.2**	118.9

A final dividend in respect of the year ended 28 February 2009 of 10.0p per share, amounting to a total final dividend of £85.6m, has been recommended by the Board of Directors, and is subject to approval by the shareholders at the Annual General Meeting. This would make a total dividend for the year of 14.7p per share, amounting to £126.0m. The recommended dividend has not been included as a liability at 28 February 2009 in accordance with IAS 10 'Events after the Balance Sheet Date'. It will be paid on 22 July 2009 to shareholders who are on the register of members at close of business on 22 May 2009. The Home Retail Group Employee Share Trust ('EST') has waived its entitlement to dividends in the amount of £1.8m (2008: £1.3m).

Notes

For the 52 weeks ended 28 February 2009

6. BASIC AND DILUTED EARNINGS PER SHARE ('EPS')

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held in Home Retail Group's share trusts, net of vested but unexercised options and share awards. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive ordinary shares.

Earnings	**52 weeks ended 28 February 2009 £m**	52 weeks ended 1 March 2008 £m
(Loss)/profit after tax for the financial year	**(413.1)**	294.6
Adjusted for:		
Exceptional items	**694.0**	(0.8)
Demerger incentive schemes	**8.4**	11.7
Financing fair value remeasurements	**28.9**	9.0
Financing impact on retirement benefit balances	**(11.2)**	(13.0)
Discount unwind on exceptional onerous lease provisions	**1.8**	-
Attributable taxation	**(61.1)**	(0.4)
Net exceptional tax credit in respect of prior years	**(23.5)**	(6.7)
Benchmark profit after tax for the financial year	**224.2**	294.4
Weighted average number of shares	**millions**	millions
Number of ordinary shares for the purpose of basic EPS	**866.6**	867.7
Dilutive effect of share incentive awards	**10.4**	9.6
Number of ordinary shares for the purpose of diluted EPS	**877.0**	877.3
EPS	**pence**	pence
Basic EPS	**(47.7)**	34.0
Diluted EPS (a)	**(47.7)**	33.6
Basic benchmark EPS	**25.9**	33.9
Diluted benchmark EPS	**25.6**	33.6

(a) In accordance with IAS 33, as the Group made a loss after tax for the 52 weeks ended 28 February 2009, the effect of share incentive awards is anti-dilutive and as such diluted EPS equals basic EPS.

Notes

For the 52 weeks ended 28 February 2009

7. RECONCILIATION OF MOVEMENTS IN EQUITY

	Share capital £m	**Merger reserve £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**
At 2 March 2008	**87.7**	**(348.4)**	**3.9**	**3,602.0**	**3,345.2**
Loss for the financial year	**-**	**-**	**-**	**(413.1)**	**(413.1)**
Net income/(expense) recognised in equity for the financial year	**-**	**-**	**52.6**	**(98.7)**	**(46.1)**
Movement in share-based compensation reserve	**-**	**-**	**-**	**21.3**	**21.3**
Net movement in own shares	**-**	**-**	**(21.1)**	**(0.4)**	**(21.5)**
Equity dividends paid during the year	**-**	**-**	**-**	**(127.2)**	**(127.2)**
Other distributions	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Total equity at 28 February 2009	**87.7**	**(348.4)**	**35.4**	**2,983.7**	**2,758.4**

	Share capital £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 4 March 2007	87.7	(348.4)	(11.4)	3,350.8	3,078.7
Profit for the financial year	-	-	-	294.6	294.6
Net income recognised in equity for the financial year	-	-	15.2	51.6	66.8
Movement in share-based compensation reserve	-	-	-	21.6	21.6
Net movement in own shares	-	-	0.1	2.3	2.4
Equity dividends paid during the year	-	-	-	(118.9)	(118.9)
Total equity at 1 March 2008	87.7	(348.4)	3.9	3,602.0	3,345.2

Other distributions represents dividend equivalent amounts paid to participants in the Group's share award schemes on exercise of awards under these schemes.

Merger reserve

The merger reserve arose on the demerger of the Group from GUS plc during 2006.

Other reserves

Other reserves principally consist of shares held in trust, the hedging reserve and the translation reserve.

Net movement in own shares represents the purchase, and subsequent utilisation or sale, of shares for the purpose of satisfying obligations arising from Home Retail Group plc share-based compensation schemes. Shares in Home Retail Group plc are held in the following trusts which have been established since demerger:

Home Retail Group Employee Share Trust ('EST')

The EST provides for the issue of shares to Group employees under share option and share grant schemes (with the exception of the Share Incentive Plan). At 28 February 2009, the EST held 20,082,708 shares with a market value of £42.7m. The shares in the EST are held within equity of the Group at a cost of £21.5m. During the year 11,398,812 shares were acquired for a cost of £21.6m, with the remaining shares in the EST having been acquired as part of the demerger from GUS plc in 2006 at no cost. Dividends on these shares are waived.

Home Retail Group Share Incentive Scheme Trust

The Home Retail Group Share Incentive Scheme Trust provides for the issue of shares to Group employees under the Share Incentive Plan. At 28 February 2009, the Trust held 1,345,240 shares with a market value of £2.9m. These shares are held within equity of the Group at a cost of £5.6m. No additional shares were purchased during the year.

Notes

For the 52 weeks ended 28 February 2009

8. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations	**52 weeks ended 28 February 2009 £m**	52 weeks ended 1 March 2008 £m
(Loss)/profit before tax	**(394.2)**	426.0
Adjustments for:		
Share of post-tax losses/(profits) of joint ventures and associates	**2.4**	(1.6)
Net financing income	**(10.2)**	(37.3)
Operating (loss)/profit	**(402.0)**	387.1
(Profit)/loss on sale of property, plant and equipment	**(0.2)**	0.4
Depreciation and amortisation	**159.4**	151.6
Impairment losses	**533.9**	10.3
Finance expense charged to Financial Services cost of sales	**13.6**	19.6
Decrease/(increase) in inventories	**74.5**	(98.4)
Decrease/(increase) in receivables	**12.6**	(21.2)
(Decrease)/increase in payables	**(97.3)**	71.5
Movement in working capital	**(10.2)**	(48.1)
Increase in provisions	**146.9**	9.2
Movement in retirement benefits	**5.9**	12.5
Share-based payment expense (net of dividend equivalent payments)	**21.1**	21.6
Cash generated from operations	**468.4**	564.2

Reconciliation of net increase in cash and cash equivalents to movement in net debt		
Net cash at beginning of the year	**174.0**	60.2
Effect of foreign exchange rate changes	**4.0**	1.8
Net increase/(decrease) in cash and cash equivalents	**31.4**	(111.6)
Decrease in debt	**-**	223.6
Net cash at the end of the year	**209.4**	174.0

Non-GAAP measures		
Financing net cash:		
Cash at bank and in hand	***209.4***	*174.0*
Current asset investments	***75.0***	-
Total financing net cash	***284.4***	*174.0*

Major non-cash transactions

Home Retail Group did not enter into any new finance lease arrangements during the year (2008: £nil).

9. RELATED PARTIES

The Group's related parties are its joint ventures and associates, key management personnel and the Home Retail Group defined benefit pension plans.

The Group lent £2.0m (2008: £nil) to a joint venture, Home Retail Group Personal Finance Limited. The total loan of £10.1m (2008: £8.1m) was outstanding as at 28 February 2009.

During the year, there were no material transactions or balances between the Group and its key management personnel or members of their close families.

During the year, the Group has paid contributions totalling £13.9m (2008: £14.3m) to the Home Retail Group defined benefit pension plans.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Group financial statements are required by law to give a true and fair view of the state of affairs and of the profit or loss of the Group for that year.

The preliminary results for the 52 weeks ended 28 February 2009 have been extracted from the annual report and the Group financial statements.

In preparing the Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Terry Duddy
Chief Executive
29 April 2009

Richard Ashton
Finance Director
29 April 2009